

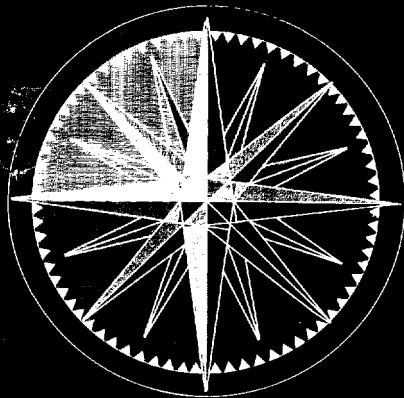
SECRET

26 March 1965

Release 2006/11/13 : CIA-RDP79-00927A004800070002-3

OCI No. 0282/65A

Copy No. 055



SPECIAL REPORT

SOVIET FOREIGN ECONOMIC ACTIVITY

CENTRAL INTELLIGENCE AGENCY

OFFICE OF RESEARCH AND REPORTS



SECRET

GROUP 1 Excluded from automatic
downgrading and declassification

25X1

Approved For Release 2006/11/13 : CIA-RDP79-00927A004800070002-3

Approved For Release 2006/11/13 : CIA-RDP79-00927A004800070002-3

SECRET

26 March 1965

SOVIET FOREIGN ECONOMIC ACTIVITY

Moscow's foreign aid program continues, propelled in part by its own momentum and in part by reasons of prestige and influence. Assistance to underdeveloped countries--within the bloc as well as non-Communist--now is a permanent feature of Soviet foreign policy. Current Soviet attention, however, is directed primarily to attempts to solve the USSR's foreign trade problem--the need for Western equipment and technology and for expanded markets for its own goods to finance such purchases. By encouraging competition among suppliers, it hopes to achieve trade on the most favorable terms.

Economic Aid

Developments since 1962 have caused no major adjustments in the economic aid program. An extensive review at that time apparently earned it approval as a tool of foreign policy, and the present regime obviously intends to continue it.

Performance in 1964, when judged by the extension of new credits, makes it plain that foreign aid remains an important pillar in Soviet relations with underdeveloped countries, both within and outside the Communist world. The record commitment to Communist and nonbloc countries in 1964--\$1.7 billion--is unlikely to be matched this year, but significant new outlays are expected.

Last year's record, like the previous peak in 1960, contained very large commitments geared to the plan periods of the recipients. Actual outflow of goods is considerably more

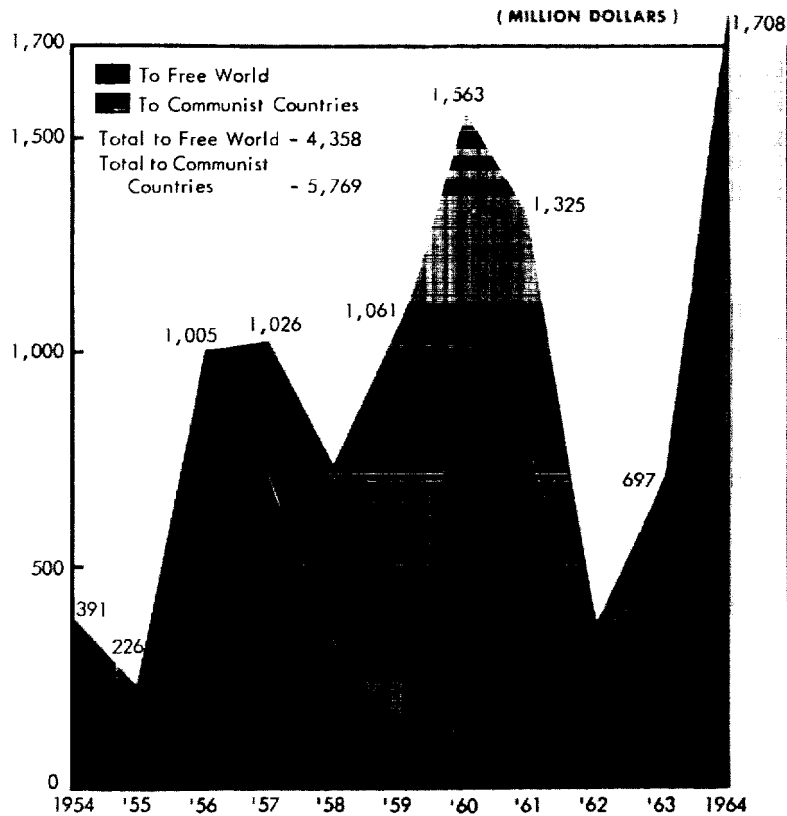
even, having risen gradually to over \$750 million a year.

A notable feature of Soviet economic aid to the free world is the increasing selectivity of the offers. The vast bulk of aid goes to countries which play key roles in major international situations--to the UAR as the dominant force in the Middle East and to India for its experiment in a middle position between socialism and private enterprise.

Moscow is not beyond revising and realigning its program to adjust to the interests and absorptive capacity of recipients. In Indonesia, a past major object of Soviet economic aid, the lack of interest in solid economic achievements and the proclivity to live from hand to mouth have caused a shift in emphasis to Soviet military programs, although Moscow repeatedly counsels more attention to the economy.

SECRET

SOVIET ECONOMIC CREDITS EXTENDED 1954 - 1964



CREDITS EXTENDED 1964 (MILLION DOLLARS)

Bulgaria	588
Egypt	280
India	211
Cuba	175
Algeria	130
Poland	78
Kenya	48
Afghanistan	41
Yemen	39
Mongolia	35
Tanzania	30
Uganda	16
Pakistan	11
Nepal	10
Congo (Brazzaville)	9
Senegal	7
<hr/>	
	1708

25X1

650319 3A

SECRET

Moscow has kept its eye on the contestants for leadership among the newly independent nations. Large commitments to Algeria clearly evidence an assessment that that country is destined to play a major role in North African developments and a significant role in Mediterranean affairs.

The USSR also continues to expend small amounts of aid among those countries whose chief recommendations are policies basically hostile to Western interests and among those in which it seeks to counter Chinese Communist influence. Moscow remains careful, however, not to assume major responsibility for poorly conceived plans of new and particularly unstable governments. An example is Tanzania, where the USSR waited through the period of stormy political union of Tanganyika and Zanzibar and engaged in thorough investigation of economic projects before any aid was extended.

Within the Communist world the USSR last year again increased credit to Bulgaria and --probably with some reluctance --continued substantial assistance to Cuba.

No innovations are expected this year. The new Soviet regime has already indicated its intention to carry on a limited but aggressive foreign aid policy. Major new aid has been promised for India's five-year plan beginning in the spring

of 1966 and to North Vietnam and Mongolia, both of which are about to begin new plan periods.

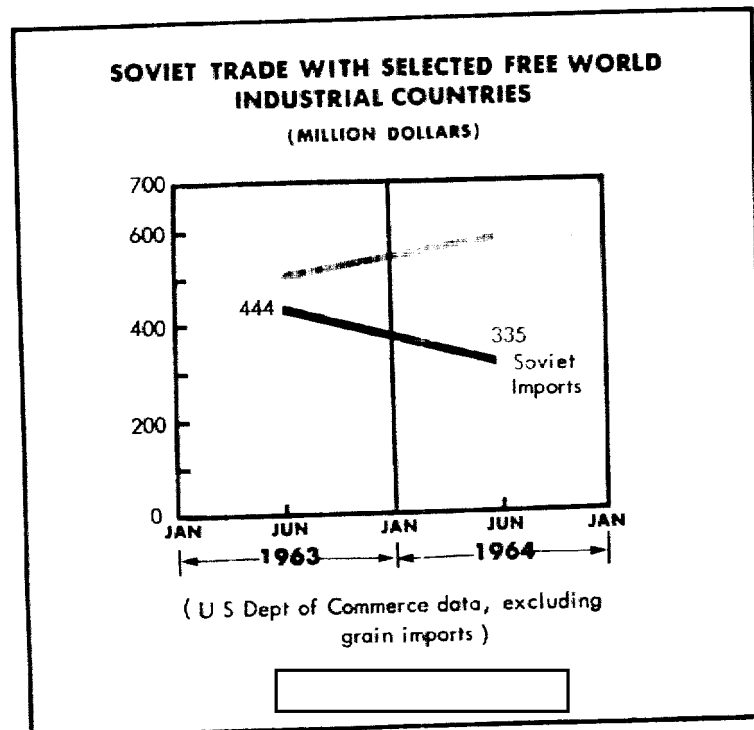
Moscow will remain alert for circumstances it can exploit to discomfit the West. Additional small outlays for new African states are likely, for example, and aid may be offered to either Greece or Turkey, depending on the outcome of the Cyprus problem.

Military aid adds no appreciable burden to the Soviet economy, and its cost to recipients is eased by large discounts and generous payment terms. The USSR has delivered about \$2.8 billion worth of equipment and military assistance since 1955 and last year concluded new pacts to provide more than \$375 million. Negotiations continue for future deliveries, and Moscow's intention to move forward with this program is evident from current arrangements for delivery of late-model weapons for a major modernization of Egypt's armed forces.

Foreign Trade

Soviet foreign trade still carries the imprint of the 1963 agricultural failure and the apparent postponement of basic decisions on import needs. The USSR--and the East European countries--now are at a stage where large injections of investment goods would result in faster growth. Ideological inability to accept direct

SECRET



650319 38

SECRET

foreign investment forces Moscow to seek some other way to increase imports of Western equipment incorporating techniques still beyond its own research and development capability.

Import demands continue to grow at a rate greater than Soviet capacity to satisfy. Deliberations on the forthcoming five-year plan (1966-70) will probably produce, among other things, a decision on the role imports are to play in the chemical industry. The program which results will undoubtedly be more realistic than the one promoted by Khrushchev in late 1963, but greater reliance on domestic machine-building capacity will not rule out the need for major purchases from the West. The demands of the chemical industry are superimposed on the need to continue importing miscellaneous engineering goods, ships, certain foodstuffs, and industrial raw and semimanufactured materials.

The USSR has managed heretofore, by gold sales and by short- and medium-term credits, to postpone grappling with basic solutions required to finance needed imports. Efforts to procure large Western commitments for long-term credits might have provided a stop-gap solution, but the crushing payment terms--interest sometimes increasing the cost of the purchase by more than half--apparently discourage their use. Despite the fact that

specific offers of over \$700 million in long-term credits have been obtained from Western sources, the USSR has contracted for only \$150 million worth of plants on credits that run longer than five years.

The USSR evidently has decided that the long-run solution is to generate a substantial growth of exports. In recent trade negotiations the USSR has emphasized sales and attempted to interest its trade partners in nontraditional Soviet exports--for example, machinery items. The Ministry of Foreign Trade is setting up new departments to promote sales of engineering goods and manufactures abroad. At the same time, Moscow continues, not too successfully, to push sales of raw materials, fuels, and other traditional exports to maximize its earnings. The attempts to finance purchases chiefly by expanded exports probably can be pursued only at the cost of cutting back the desired import program.

Few innovations in trade are likely during 1965. The growth rate has been declining for the past two years, and this year it is unlikely to exceed substantially the 5.5-percent increase registered in 1964 when foreign trade totaled \$15.1 billion.

Trade with other Communist countries will increase only slowly, and the much-heralded trade with underdeveloped

SECRET

SECRET

countries fails to exhibit any tendency toward rapid growth, but will be maintained by fulfillment of aid programs. The chief gain in trade with the free world in 1964 was represented by the extraordinary wheat imports, amounting to about \$600 million, and even that gain was offset in part by reductions of Soviet imports of machinery and industrial raw materials.

The USSR continues to buy wheat from the West, but imports this year are not likely to exceed 25 percent of the 1964 purchases. The paucity of new orders for Western plants and machinery in 1964 and thus far this year will tend to keep imports of such items in the immediate future to relatively low levels. Deliveries will continue to arrive, however, under long-term contracts signed in 1963.

Trade with China is expected to dip somewhat more in

1965. The decline will depend partly on how willing Moscow is to pay for goods which it formerly received as repayments on loans, assuming China is willing to continue delivery of those goods. Necessary increased support for Cuba and growing exchanges of Soviet fuels and raw materials for machinery from Eastern Europe is expected to result in some increase in trade in these areas.

Altogether, Soviet foreign trade in 1965 is expected to mirror domestic economic activity. This year undoubtedly will be another period of consolidation and preparation for the forthcoming five-year plan. In view of Moscow's statements to several Western trade partners that large orders will not be placed this year, Soviet trade during that plan, in the absence of significant new means to finance imports may drop to little more than half the rate of the last five years.

25X1

* * *

SECRET

SECRET

Approved For Release 2006/11/13 : CIA-RDP79-00927A004800070002-3

SECRET

Approved For Release 2006/11/13 : CIA-RDP79-00927A004800070002-3